



## CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

April 17, 1998

### **H.R. 6**

#### **Higher Education Act Amendments of 1998**

*As ordered reported by the House Committee on Education and the Workforce  
on March 19, 1998*

#### **SUMMARY**

H.R. 6 would amend the Higher Education Act of 1965 by reauthorizing several existing programs, authorizing new programs, and repealing others. Authorizations of appropriations under H.R. 6 would total \$101 billion for fiscal years 1999-2003, assuming adjustments for inflation. Without adjustments for inflation, authorizations would total \$100 billion.

H.R. 6 would also make numerous changes in federal student loan programs. These changes are estimated to reduce direct spending by \$185 million in 1998 but increase spending by almost \$3.8 billion over the 1999-2003 period.

H.R. 6 contains no intergovernmental or private sector mandates that would exceed the thresholds established in the Unfunded Mandates Reform Act (UMRA).

The estimates assume that H.R. 6 would be enacted by June 1, 1998. Except where provisions have specific effective dates, H.R. 6 would become effective on October 1, 1998.

#### **ESTIMATED COST TO THE FEDERAL GOVERNMENT**

The estimated budgetary impact of H.R. 6 is shown in Table 1.

The costs of this legislation fall within budget function 500 (education, training, employment, and social services).

Table 1. Estimated Budgetary Impact of H.R. 6

|  | By Fiscal Year, in Millions of Dollars |        |        |        |        |        |
|--|--|--------|--------|--------|--------|--------|
|  | 1998                                   | 1999   | 2000   | 2001   | 2002   | 2003   |
| <b>SPENDING SUBJECT TO APPROPRIATION</b> |  |        |        |        |        |        |
| Spending Under Current Law               |  |        |        |        |        |        |
| Budget Authority                         | 10,052                                 | 0      | 0      | 0      | 0      | 0      |
| Estimated Outlays                        | 9,268                                  | 8,335  | 385    | 19     | 0      | 0      |
| <b>With Adjustments for Inflation</b>    |  |        |        |        |        |        |
| Total Proposed Changes                   |  |        |        |        |        |        |
| Estimated Authorization Levels           | --                                     | 17,439 | 18,516 | 20,117 | 21,789 | 22,927 |
| Estimated Outlays                        | --                                     | 3,168  | 16,449 | 18,625 | 20,337 | 21,924 |
| Total Spending Under H.R. 6              |  |        |        |        |        |        |
| Estimated Authorization Levels           | 10,052                                 | 17,439 | 18,516 | 20,117 | 21,789 | 22,927 |
| Estimated Outlays                        | 9,268                                  | 11,503 | 16,834 | 18,644 | 20,337 | 21,924 |
| <b>Without Adjustments for Inflation</b> |  |        |        |        |        |        |
| Total Proposed Changes                   |  |        |        |        |        |        |
| Estimated Authorization Levels           | --                                     | 17,439 | 18,425 | 19,929 | 21,501 | 22,528 |
| Estimated Outlays                        | --                                     | 3,168  | 16,438 | 18,543 | 20,161 | 21,649 |
| Total Spending Under H.R. 6              |  |        |        |        |        |        |
| Estimated Authorization Levels           | 10,052                                 | 17,439 | 18,425 | 19,929 | 21,501 | 22,528 |
| Estimated Outlays                        | 9,268                                  | 11,503 | 16,823 | 18,562 | 20,161 | 21,649 |
| <b>DIRECT SPENDING</b>                   |  |        |        |        |        |        |
| Baseline Spending Under Current Law      |  |        |        |        |        |        |
| Estimated Budget Authority               | 3,863                                  | 5,182  | 5,472  | 5,778  | 5,078  | 6,346  |
| Estimated Outlays                        | 3,369                                  | 4,389  | 4,882  | 5,171  | 4,477  | 5,751  |
| Proposed Changes                         |  |        |        |        |        |        |
| Estimated Budget Authority               | a                                      | 710    | 750    | 865    | 970    | 1,025  |
| Estimated Outlays                        | -185                                   | 590    | 665    | 740    | 845    | 915    |
| Baseline Spending Under H.R. 6           |  |        |        |        |        |        |
| Estimated Budget Authority               | 3,863                                  | 5,892  | 6,222  | 6,643  | 6,048  | 7,371  |
| Estimated Outlays                        | 3,184                                  | 4,979  | 5,547  | 5,911  | 5,322  | 6,666  |

Note: Components may not sum to totals due to rounding.

a. Less than \$500,000.

## **BASIS OF ESTIMATE**

### **Spending Subject to Appropriation**

H.R. 6 would reauthorize several existing discretionary programs within the Higher Education Act of 1965. In addition, some new programs would be authorized, and a number of expiring provisions would be repealed. For most of the programs that would be reauthorized or newly authorized, the bill includes stated amounts of authorizations for fiscal year 1999, plus such sums as may be necessary for the four following fiscal years. CBO assumes current spending patterns in estimating outlays.

Tables 2 and 3 show the estimated impact of H.R. 6 on spending subject to appropriation by title, with and without adjustments for inflation after 1999.

**Title I: General Provisions.** Title I would authorize a new performance-based organization (PBO) within the Department of Education for the delivery of student financial aid assistance. The PBO would have a chief operating officer and up to five senior managers whose pay would be linked to their performance in improving student financial aid services. The PBO would have greater flexibility than the Department currently has in its budgeting, procurement, and personnel processes but would have no role in developing policy. Although the policy implications of the creation of this new PBO could be significant, its budgetary implications would be minimal, because the principal activities of the PBO are already being performed by the Department of Education. CBO estimates that this provision would cost an additional \$2 million in 1999 and \$1 million in each of fiscal years 2000 through 2003 to cover start-up activities and compensation for new personnel.

**Title II: Post-Secondary Improvement Programs.** Title II would authorize the Urban Community Service program, a fund for the improvement of post-secondary education, grants to states for workplace and community transition training for incarcerated youth offenders, an advanced placement fee payment program, and teacher quality enhancement grants. These authorizations would total \$77 million in fiscal year 1999 and \$386 million for fiscal years 1999-2003, not including adjustments for inflation.

Table 2: Estimated Impact of H.R. 6 on Spending Subject to Appropriation, With Adjustments For Inflation

|  | By Fiscal Year, in Millions of Dollars |        |        |        |        |        |
|--|--|--------|--------|--------|--------|--------|
|  | 1998                                   | 1999   | 2000   | 2001   | 2002   | 2003   |
| <b>Spending Under Current Law</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | 10,052                                 | 0      | 0      | 0      | 0      | 0      |
| Estimated Outlays  | 9,268                                  | 8,335  | 385    | 19     | 0      | 0      |
| <b>Proposed Changes</b>  |  |        |        |        |        |        |
| <b>Title I: General Provisions</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 2      | 1      | 1      | 1      | 1      |
| Estimated Outlays  | --                                     | 2      | 1      | 1      | 1      | 1      |
| <b>Title II: Post-Secondary Improvement Programs</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 77     | 79     | 81     | 83     | 85     |
| Estimated Outlays  | --                                     | 9      | 62     | 77     | 81     | 83     |
| <b>Title III: Institutional Aid</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 335    | 343    | 352    | 360    | 370    |
| Estimated Outlays  | --                                     | 40     | 269    | 336    | 351    | 360    |
| <b>Title IV: Pell Grants</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 13,249 | 14,233 | 15,733 | 17,303 | 18,333 |
| Estimated Outlays  | --                                     | 2,650  | 13,181 | 14,513 | 16,017 | 17,478 |
| <b>Title IV: Other Student Assistance</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 3,291  | 3,364  | 3,442  | 3,522  | 3,610  |
| Estimated Outlays  | --                                     | 413    | 2,576  | 3,219  | 3,381  | 3,485  |
| <b>Title V: Developing Institutions</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 80     | 82     | 84     | 86     | 88     |
| Estimated Outlays  | --                                     | 10     | 64     | 80     | 84     | 86     |
| <b>Title VI: International and Graduate Education Programs</b>                                       |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 148    | 152    | 155    | 159    | 164    |
| Estimated Outlays  | --                                     | 18     | 119    | 148    | 155    | 159    |
| <b>Title VII: Construction, Reconstruction, and Renovation of Academic Facilities</b>                |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 50     | 51     | 53     | 54     | 55     |
| Estimated Outlays  | --                                     | 0      | 15     | 45     | 52     | 53     |
| <b>Title VIII: Additional Provisions</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 3      | 3      | 1      | 1      | 1      |
| Estimated Outlays  | --                                     | 3      | 3      | 1      | 1      | 1      |
| <b>Title IX: Amendments to the Education of the Deaf Act of 1986 and Indian Higher Education Act</b> |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 204    | 209    | 216    | 220    | 220    |
| Estimated Outlays  | --                                     | 24     | 160    | 204    | 215    | 219    |
| <b>Total Proposed Changes</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 17,439 | 18,516 | 20,117 | 21,789 | 22,927 |
| Estimated Outlays  | --                                     | 3,168  | 16,449 | 18,625 | 20,337 | 21,924 |
| <b>Total Spending Under H.R. 6</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | 10,052                                 | 17,439 | 18,516 | 20,117 | 21,789 | 22,927 |
| Estimated Outlays  | 9,268                                  | 11,503 | 16,834 | 18,644 | 20,337 | 21,924 |

Table 3: Estimated Impact of H.R. 6 on Spending Subject to Appropriation, Without Adjustment For Inflation

|  | By Fiscal Year, in Millions of Dollars |        |        |        |        |        |
|--|--|--------|--------|--------|--------|--------|
|  | 1998                                   | 1999   | 2000   | 2001   | 2002   | 2003   |
| <b>Spending Under Current Law</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | 10,052                                 | 0      | 0      | 0      | 0      | 0      |
| Estimated Outlays  | 9,268                                  | 8,335  | 385    | 19     | 0      | 0      |
| <b>Proposed Changes</b>  |  |        |        |        |        |        |
| <b>Title I: General Provisions</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 2      | 1      | 1      | 1      | 1      |
| Estimated Outlays  | --                                     | 2      | 1      | 1      | 1      | 1      |
| <b>Title II: Post-Secondary Improvement Programs</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 77     | 77     | 77     | 77     | 77     |
| Estimated Outlays  | --                                     | 9      | 62     | 76     | 77     | 77     |
| <b>Title III: Institutional Aid</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 335    | 335    | 335    | 335    | 335    |
| Estimated Outlays  | --                                     | 40     | 268    | 328    | 335    | 335    |
| <b>Title IV: Pell Grants</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 13,249 | 14,233 | 15,733 | 17,303 | 18,333 |
| Estimated Outlays  | --                                     | 2,650  | 13,181 | 14,513 | 16,017 | 17,478 |
| <b>Title IV: Other Student Assistance</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 3,291  | 3,291  | 3,291  | 3,291  | 3,291  |
| Estimated Outlays  | --                                     | 413    | 2,566  | 3,153  | 3,241  | 3,266  |
| <b>Title V: Developing Institutions</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 80     | 80     | 80     | 80     | 80     |
| Estimated Outlays  | --                                     | 10     | 64     | 78     | 80     | 80     |
| <b>Title VI: International and Graduate Education Programs</b>                                       |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 148    | 148    | 148    | 148    | 148    |
| Estimated Outlays  | --                                     | 18     | 118    | 145    | 148    | 148    |
| <b>Title VII: Construction, Reconstruction, and Renovation of Academic Facilities</b>                |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 50     | 50     | 50     | 50     | 50     |
| Estimated Outlays  | --                                     | 0      | 15     | 45     | 50     | 50     |
| <b>Title VIII: Additional Provisions</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 3      | 3      | 1      | 1      | 1      |
| Estimated Outlays  | --                                     | 3      | 3      | 1      | 1      | 1      |
| <b>Title IX: Amendments to the Education of the Deaf Act of 1986 and Indian Higher Education Act</b> |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 204    | 207    | 212    | 214    | 212    |
| Estimated Outlays  | --                                     | 24     | 160    | 202    | 211    | 213    |
| <b>Total Proposed Changes</b>  |  |        |        |        |        |        |
| Estimated Budget Authority   | --                                     | 17,439 | 18,425 | 19,929 | 21,501 | 22,528 |
| Estimated Outlays  | --                                     | 3,168  | 16,438 | 18,543 | 20,161 | 21,649 |
| <b>Total Spending Under H.R. 6</b>   |  |        |        |        |        |        |
| Estimated Budget Authority   | 10,052                                 | 17,439 | 18,425 | 19,929 | 21,501 | 22,528 |
| Estimated Outlays  | 9,268                                  | 11,503 | 16,823 | 18,562 | 20,161 | 21,649 |

**Title III: Institutional Aid.** Title III would provide authorizations for grants aimed at strengthening institutions of higher education, including historically black colleges and universities and tribally-controlled colleges and universities. Title III would also reauthorize the minority science and engineering improvement program. Authorizations under Title III would total \$335 million in fiscal year 1999, and \$1.7 billion for fiscal years 1999-2003, not including adjustments for inflation.

**Title IV: Pell Grants.** Title IV-A would reauthorize the Pell grant program and change the formulas used to determine Pell award levels.

CBO has developed a simulation model using a sample of applicants for student aid to estimate the effects of various policy changes on federal spending under the Pell program and student loan programs. Using detailed income, asset, and demographic data for individual students and their families, the model is used to estimate how much students and their families would be expected to contribute to educational costs. For Pell grants, the model also simulates program participation and estimates the amount of federal support necessary to fund the program, based on families' expected contributions, the award rules, the costs of the postsecondary schools that the students attend, and the maximum award level. The figures included in this cost estimate are based on the Department of Education's sample of Pell grant applicants and recipients for the 1996-1997 academic year, the latest year for which complete data are available.

*Maximum awards.* The authorized Pell maximum award would be \$4,500 for academic year 1999-2000, \$4,700 for academic year 2000-2001, \$4,900 for academic year 2001-2002, \$5,100 for academic year 2002-2003, and \$5,300 for academic year 2003-2004. The Pell program is currently authorized only through fiscal year 1998 (academic year 1998-1999). H.R. 6 would increase estimated authorizations by \$13.2 billion for fiscal year 1999, \$14.2 billion for fiscal year 2000, \$15.7 billion for fiscal year 2001, \$17.3 billion for fiscal year 2002, and \$18.3 billion for fiscal year 2003. CBO estimates that, under the stated maximum grants, 4.6 million students would receive Pell grants in academic year 1999-2000, 4.7 million in 2000-2001, 5.1 million in 2001-2002, 5.4 million in 2002-2003, and 5.5 million in 2003-2004. The average award would be about \$2,890 in 1999-2000, \$3,000 in 2000-2001, \$3,100 in 2001-2002, \$3,220 in 2002-2003, and \$3,330 in 2003-2004. These estimates assume that the program would be funded at the maximum levels authorized and would include the needs analysis and other changes contained in the bill.

*Needs analysis.* Part F of Title IV of the bill would modify the needs analysis formulas used for calculating federal Pell grants. The needs analysis formulas are used to determine the expected family contribution (EFC), or the amount that the federal government expects the parents and the student to contribute toward the student's education. In most cases, the size

of the grant is determined by subtracting the EFC from the maximum award. Any change that would lower the EFC would increase an individual's grant.

Under H.R. 6, parents of dependent students who are also enrolled in college courses would no longer be counted as students when determining the parents' contribution from available income. This change would raise the EFC for these families and reduce the Pell award. CBO estimates that this provision would reduce program costs by about \$10 million, assuming a \$3,000 maximum award (the same level as in 1998-1999).

Under H.R. 6, assets held by dependent students and their parents would be combined and assessed together to determine a family contribution from assets, rather than assessing them separately and at different rates as under current law. Under this bill, dependent students would have to contribute 12 percent of their assets each year towards college, rather than the current 35 percent. CBO estimates that this provision would increase program costs by about \$90 million in 1999, assuming a \$3,000 maximum award.

H.R. 6 would increase the income protection allowance (IPA) for dependent students and for independent students without children. The IPA is an amount of income that is not expected to be used toward college and is not counted as income as part of the EFC calculations. H.R. 6 would increase the IPA from \$2,200 to \$3,000 for dependent students, from \$4,250 to \$5,500 for single students and for married students who are both enrolled in school, and from \$7,250 to \$8,500 for married students with only one enrolled. CBO estimates that the IPA increases would boost program costs by about \$310 million in 1999, assuming a \$3,000 maximum award.

H.R. 6 would index these IPA levels to the consumer price index for fiscal year 2000 and beyond. This provision would result in additional costs of about \$30 million in 2000, \$60 million in 2001, \$90 million in 2002, and \$120 million in 2003.

Under the bill, negative parental income (after taxes, employment expenses, and the IPA) would count as an offset against the students' available income. CBO estimates that this provision would increase costs by about \$180 million in 1999 with a \$3,000 maximum award.

H.R. 6 would give student financial aid administrators more discretion in determining a student's EFC. Under current law, a student financial aid administrator can, on a case-by-case basis and under "special circumstances," change the items that go into calculating a student's EFC. H.R. 6 would allow the aid administrator under "extraordinary circumstances" (to be defined by the Secretary of Education) to change a student's EFC itself. Since under current law an aid administrator has the discretion to affect a student's EFC, and since any use of the "extraordinary circumstances" provision would likely need substantial

documentation, CBO assumes that this provision would be used infrequently and have a negligible effect on costs.

*Other provisions.* Title IV would exclude schools with high loan default rates from participating in the Pell programs. CBO estimates that this provision would reduce Pell costs by about \$15 million in 1999, assuming a \$3,000 maximum award.

Part G of Title IV contains a provision that would exclude individuals attending college in Micronesia, the Marshall Islands, and Palau from receiving Pell awards beginning in 2001. This provision would reduce program costs by \$6 million each year assuming a \$3,000 maximum award.

Part G also authorizes the Secretary of Education to verify income data by confirming that adjusted gross income (AGI) claimed on student financial aid forms corresponds to the AGI declared to the IRS. A recent audit by the Department of Education suggests that approximately 4.4 percent of applicants underreported their incomes and received larger awards than they should have. CBO estimates that the proposed policy could not be implemented until fiscal year 2000. Savings in that year would be \$180 million and would total \$735 million over the 2000-2003 period.

CBO estimates that other provisions would have little or no budgetary impact. They include increasing the tuition sensitivity formula threshold, increasing the dependent care allowance in cases where the tuition sensitivity formula is used, prorating a student's contribution for periods of enrollment less than nine months, excluding from participation individuals convicted of drug-related offenses, changing the rule dealing with sources of revenues for proprietary schools, and allowing for a distance education demonstration project.

**Title IV: Other Student Assistance.** In addition to authorizing Pell grants, Title IV-A would authorize other grants to students. These grants would include work-study grants, TRIO programs, a new High Hopes for College program, federal supplementary education opportunity grants, assistance for students whose families are engaged in migrant and seasonal farm work, a new Frank Tejeda Scholarship, and a Robert C. Byrd Honors Scholarship. With the exception of the High Hopes for College program, these grants would be authorized through 2003. The High Hopes program would be authorized through 2004. Discretionary spending authorized in Part A of Title IV, excluding Pell Grants, totals \$3.3 billion for fiscal year 1999 and \$16.5 billion from 1999-2003, not including adjustments for inflation.

**Title V: Developing Institutions.** Title V would authorize grants to institutions with full-time undergraduate enrollment of at least 25 percent Hispanic students. A qualifying institution would need to provide assurances that at least 50 percent of its Hispanic students



are low income. The bill would provide \$80 million in fiscal year 1999 and such sums as may be necessary for grants to Hispanic serving institutions. Title V would authorize \$400 million over the 1999-2003 period, not including adjustments for inflation.

**Title VI: International and Graduate Education Programs.** Title VI would authorize funding for international and foreign language studies, a business and international education program, an institute for international public policy, and graduate assistance areas of national need. Authorizations under Title VI would total \$148 million in fiscal year 1999 and \$740 million for fiscal years 1999-2003, not including adjustments for inflation.

**Title VII: Construction, Reconstruction, and Renovation of Academic Facilities.** Title VII would authorize \$50 million in 1999 to cover the subsidy costs of loans for construction, reconstruction, and renovation of academic housing and other educational facilities. Estimated authorization levels would total \$250 million for fiscal years 1999-2003, not including adjustments for inflation.

**Title VIII: Additional Provisions.** Title VIII would authorize several studies on various aspects of higher education. One study would be a report by the Department of Education on the existing practices concerning the transfer of credits between institutions of higher education. The General Accounting Office (GAO) would be required to undertake three studies: an analysis of the potential for using auctions or other market mechanisms in the delivery of student loans, a study on the costs to institutions of higher education of regulations affecting industrial and commercial enterprises, and an annual report on the costs of higher education. The final requirement of Title VIII is a study by the National Center on Education Statistics (NCES) on establishing consistent methodologies for reporting the various costs of the different institutions of higher education.

The report required of the Department of Education is estimated to have insignificant costs. After discussions with GAO staff, CBO estimates that the GAO studies would cost \$1.1 million over the 1999-2000 period, with insignificant costs for the ongoing reporting requirement. Based on consultations with NCES staff, CBO estimates that the NCES study would cost \$2 million in both 1999 and 2000 and \$1 million annually for the ongoing collection and dissemination of data.

**Title IX: Amendments to the Education of the Deaf Act of 1986 and Indian Higher Education Act.** Title IX would amend the Education of the Deaf Act by authorizing funds for Gallaudet University and the National Technical Institute for the Deaf (NTID). Under this title, Gallaudet's authorization would total \$83 million in 1999 and \$430 million for fiscal years 1999-2003; the NTID would receive \$45 million in 1999 and \$239 million over the years 1999-2003.

Authorizations under Part B of Title IX would target tribally-controlled colleges and universities and would include funds for endowment growth, construction, economic development, teacher training, and the Navajo Community College Act. Total authorizations under Title IX would be about \$200 million in 1999 and about \$1.1 billion for fiscal years 1999-2003.

## **Direct Spending**

**Title IV: Student Loans.** This bill makes several changes in the student loan programs, which under current law are expected to guarantee or issue about 52 million loans totaling \$210 billion over the 1998-2003 period. The bill would slightly modify the conditions of eligibility for loans and would increase the government's cost of providing loan capital to students and parents. In general, the proposed changes may be generally classified by their impacts: changes affecting interest rates for borrowers and lenders, changes affecting guaranty agencies, and changes affecting borrowers. The bill also contains a number of other changes to the program, but these would have relatively small budgetary effects.

Most provisions affecting the student loan programs are assessed under the requirements of credit reform. As such, the budget records all the costs and collections associated with a new loan on a present-value basis in the year the loan is obligated. The costs of all changes affecting outstanding loans are displayed in the year a bill is enacted--in this case 1998.

The changes included in this bill would decrease program costs by \$185 million in 1998, but increase costs by \$630 million in 1999 and \$3.8 billion over the 1998-2003 period (see Table 4). The overall federal discounted cost of providing loan capital to students and parents would be increased by about 2 percentage points per each dollar loaned from an estimated 11.6 percent to 13.6 percent.

Table 4. Estimated Impact of H.R. 6 on Direct Spending

|                               | By Fiscal Year, in Millions of Dollars |      |      |      |       |       |       |       |       |       |       |
|-------------------------------|--|------|------|------|-------|-------|-------|-------|-------|-------|-------|
|                               | 1998                                   | 1999 | 2000 | 2001 | 2002  | 2003  | 2004  | 2005  | 2006  | 2007  | 2008  |
| <b>STUDENT LOANS</b>          |  |      |      |      |       |       |       |       |       |       |       |
| Interest Rates <sup>a</sup>   |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | 360                                    | 700  | 725  | 790  | 845   | 870   | 925   | 970   | 1,010 | 1,050 | 1,095 |
| Outlays                       | 160                                    | 605  | 650  | 695  | 750   | 780   | 820   | 865   | 895   | 935   | 975   |
| Guaranty Agencies             |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | -405                                   | 5    | 16   | 10   | 25    | 40    | 70    | 70    | 70    | 75    | 70    |
| Outlays                       | -385                                   | -20  | 11   | 10   | 25    | 30    | 70    | 70    | 70    | 65    | 70    |
| Borrowers                     |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | 35                                     | 23   | 35   | 90   | 130   | 145   | 145   | 145   | 155   | 155   | 160   |
| Outlays                       | 30                                     | 23   | 35   | 60   | 110   | 130   | 130   | 135   | 140   | 145   | 145   |
| Other                         |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | 5                                      | 5    | b    | b    | b     | b     | b     | b     | b     | b     | b     |
| Outlays                       | 5                                      | 5    | b    | b    | b     | b     | b     | b     | b     | b     | b     |
| Interactions Among Provisions |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | 5                                      | 17   | 14   | 15   | 10    | 10    | 15    | 15    | 20    | 20    | 25    |
| Outlays                       | 5                                      | 17   | 9    | 15   | 0     | 15    | 10    | 10    | 10    | 20    | 15    |
| Subtotal                      |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | b                                      | 750  | 790  | 905  | 1,010 | 1,065 | 1,155 | 1,200 | 1,255 | 1,300 | 1,350 |
| Outlays                       | -185                                   | 630  | 705  | 780  | 885   | 955   | 1,030 | 1,080 | 1,115 | 1,165 | 1,205 |
| <b>PERKINS LOAN PROGRAM</b>   |  |      |      |      |       |       |       |       |       |       |       |
| Perkins Loan Revolving Fund   |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | --                                     | -40  | -40  | -40  | -40   | -40   | -40   | -40   | -40   | -40   | -40   |
| Outlays                       | --                                     | -40  | -40  | -40  | -40   | -40   | -40   | -40   | -40   | -40   | -40   |
| Perkins Loan Payoff Provision |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | --                                     | b    | b    | b    | b     | b     | b     | b     | b     | b     | b     |
| Outlays                       | --                                     | b    | b    | b    | b     | b     | b     | b     | b     | b     | b     |
| Subtotal                      |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | --                                     | -40  | -40  | -40  | -40   | -40   | -40   | -40   | -40   | -40   | -40   |
| Outlays                       | --                                     | -40  | -40  | -40  | -40   | -40   | -40   | -40   | -40   | -40   | -40   |
| <b>TOTAL</b>                  |  |      |      |      |       |       |       |       |       |       |       |
| Budget Authority              | b                                      | 710  | 750  | 865  | 970   | 1,025 | 1,115 | 1,160 | 1,215 | 1,260 | 1,310 |
| Outlays                       | -185                                   | 590  | 665  | 740  | 845   | 915   | 990   | 1,040 | 1,075 | 1,125 | 1,165 |

a. The estimated costs of the interest rate changes excluding the expected government costs associated with the cap on borrower interest rates are as follows:

|                  | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|------------------|------|------|------|------|------|------|------|------|------|------|------|
| Budget Authority | 95   | 185  | 195  | 230  | 250  | 260  | 270  | 280  | 290  | 300  | 310  |
| Outlays          | 45   | 150  | 175  | 195  | 220  | 235  | 245  | 255  | 260  | 270  | 280  |

b. Less than \$500,000.

*Changes Affecting Interest Rates for Borrowers and Lenders.* Under current law, a new formula for establishing the variable interest rate on guaranteed and direct student loans is scheduled to take effect in July 1998.<sup>1</sup> The interest rate received by private lenders will be the interest rate on bonds of comparable maturity plus 1.0 percentage points.<sup>2</sup> Borrowers will pay the same rate, but no more than 8.25 percent. To the extent that the yield to lenders exceeds the rate paid by borrowers, the federal government pays lenders the difference, which is called a special allowance. In addition the federal government pays the interest for student borrowers with subsidized loans while they are in school or in a period of grace or deferment.

H.R. 6 would set the rate paid by student borrowers at the bond-equivalent 91-day Treasury bill rate plus 1.7 percentage points while the borrower is in school, grace, or deferment and 2.3 percentage points when the borrower is in repayment. Lenders would receive a rate that would be 50 basis points (0.5 percentage points) higher, and the difference would be paid by the federal government. In addition, the cap of 8.25 percent on borrower's rates would be retained. (The bill would also change the rates on direct and guaranteed parent loans.)

The net budgetary effect of the changes in borrower interest rates and lender yields is to increase federal costs over the 1998-2003 period by about \$3.6 billion relative to current law. The increased cost is associated with the new, minimum 50-basis-point special allowance payment as well as the increased exposure of the federal government to interest rate subsidies when rates rise sufficiently to cause the borrowers' interest rates to be constrained by the statutory caps. The proposed new interest rate structure would move the interest rates closer to the caps. Moreover, the 91-day Treasury bill is a more volatile instrument than the 10-year bond rate. These costs are partially offset by higher borrower interest payments in the direct loan program.

In estimating the expected federal costs of the interest rate formula change, CBO used a vector autoregressive model to simulate the variation in interest rates around the CBO's baseline forecast. The model provided probabilities of how often and by how much the simulated rates exceeded the 8.25 percent interest rate cap. These probabilities were then used in CBO's model of the student loan program to estimate changes in subsidy costs.

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1. Before July 1998, borrowers in the guaranteed and direct student loan programs pay the bond equivalent of the 91-day Treasury bill rate plus 2.5 percentage points while the borrower is in school, grace, and deferment and 3.1 percentage points when the borrower is in repayment. The interest rate cap is 8.25 percent. The interest rate on guaranteed and direct parent loans is the bond equivalent of the 365-day Treasury bill rate plus 3.1 percentage points, with a cap of 9 percent.
  2. The CBO baseline assumes that the rate on bonds of comparable maturity is the 10-year bond rate. Recently, the Administration has indicated that it expects to use a blended rate of 10-year and 20-year maturities.

*Changes Affecting Guarantors.* H.R. 6 would restructure the financing of guaranty agencies and divide the current agency reserve funds into federal and agency property. In addition, many of the federal payments to and from the guaranty agencies would be altered by this bill. Overall, the provisions affecting guaranty agencies are estimated to reduce federal costs by \$329 million over the 1998-2003 period.

This bill would reduce the federal reinsurance rate on new insured loans from 98 percent to 95 percent; the reinsurance rates for high default agencies would also be lowered. This change would lower costs by \$355 million over the next five years.

H.R. 6 would lower the retention allowance on default collections by the guaranty agencies. Currently, agencies are allowed to retain 27 percent of their recoveries from loans that default; the remainder goes to the federal government. This bill would reduce the retention allowance to 24 percent except for consolidations of defaulted loans, where the percentage would be set at 18.5 percent. This change would apply to all default collections as of October 1, 1998, and result in an estimated \$385 million in savings over the 1998-2003 period.

The bill would eliminate the payment to guaranty agencies in cases where the agencies assist lenders in attempting to avert defaults. Currently the payment is equal to 1 percent of the principal and interest of loans for which the lenders do not file a default claim for at least 270 days after the loan is determined to be delinquent. The elimination of this payment, which would apply for outstanding as well as new loans, would save \$260 million from 1998 to 2003.

The bill would reclaim \$150 million in agency reserves over the next five years. Although agency reserves are considered the property of the federal government, federal budgetary documents have never displayed these reserves as assets of the federal government. Consequently, as with the reserves recaptured in the Balanced Budget Act of 1997, the Office of Management and Budget (OMB) has displayed any reserves being reclaimed as offsetting receipts, and CBO has followed this budgetary treatment. The reserves reclaimed under H.R. 6 are estimated to reduce net federal spending by \$150 million over the 1999-2003 period.

The bill would establish a new federal subsidy payment to guaranty agencies equal to 0.65 percent of new guaranteed loan volume. Based on CBO's estimate of loan volume, this provision would cost \$690 million over the next five years.

The bill would increase the current \$150 million annual mandated set-aside of Section 458 funds to be used for administrative costs. The new payments would be 0.12 percent of

outstanding guaranteed loan volume for 1999 and 2000 and 0.1 percent thereafter. Section 458 funds would be increased by \$131 million over the 1999-2003 period.

*Changes Affecting Borrowers (exclusive of changes in interest rates).* H.R. 6 would make numerous changes in the student loan program that could have implications for borrowers. In total, the provisions affecting borrowers--excluding the change in interest rates--would cost the federal government an estimated \$388 million over the 1998-2003 period.

The bill would provide for a degree of loan cancellation for some teachers in public or private elementary or secondary schools in school districts eligible for Title I grants and in a school with more than 30 percent of students from low-income families. Teachers would have to be certified (in the case of elementary school teachers) or to be teaching in their college major (in the case of secondary school teachers). Loan cancellation would apply only to subsidized loans received after the first two years of college up to \$17,750, and the loans and accrued interest would be canceled according to the following schedule: nothing for the first two years of teaching, 30 percent in each of the third and fourth years, and the remaining 40 percent in the fifth year. Eligibility would be restricted to new loans issued to new borrowers beginning in October 1998. The estimated costs of this provision were based on information from the National Center on Education Statistics on the number of newly hired teachers who are recent college graduates and the number of teachers who teach in the types of schools which would be eligible to participate under this program, as well as information on the number of elementary teachers who are certified to teach and the number of secondary teachers who are teaching in their major. By 2003, over 30,000 new teachers are estimated to be participating in this program. The estimated subsidy costs of the provision are \$218 million over the next five years.

This bill would also modify certain rules with regard to loan disbursements, change the calculations determining eligibility for loans, modify various repayment rules and terms, and alter loan amounts in certain cases. Estimates for the changes in eligibility requirements and loan amounts are generally derived from simulations from the Pell Grant model described earlier. Together these changes would increase costs by \$170 million over the 1998-2003 period.

*Other Changes.* H.R. 6 would extend for one additional year an exemption to a rule that would eliminate schools from participating in the student loan program if their default rates for a cohort exceeded 25 percent. In addition, the Secretary of Education would be allowed to continue the exemption on a year-by-year and case-by-case basis for the next two years. CBO estimates that this provision will increase federal costs by \$5 million in both fiscal years 1998 and 1999.

*Interactions Among Student Loan Provisions.* Because the proposed changes in the student loan programs interact with each other, the total savings from all of the provisions together do not equal the sum of the individual components. For example, changes in loan volume due to changes in eligibility rules would affect the costs of the change in interest rates. When all of the provisions are considered together, the interactions increase the costs by \$17 million in 1999 and \$61 million through 2003.

**Perkins Loans.** Under current law, the Perkins loan revolving fund collects receipts of certain repayments from Perkins loans that have been assigned, referred to, or transferred to the Department of Education. The monies in this fund are to be disbursed by the Secretary to Perkins loan schools in the form of grants for new capital. H.R. 6 would repeal this fund and deposit its current balances in the Treasury. This change would save \$200 million over the 1998-2003 period. H.R. 6 would also mandate that the Secretary of Education pay off Perkins loans for borrowers whose schools closed before they completed their course of education. Few borrowers would be affected by this provision, and its cost would be negligible.

## **PAY-AS-YOU-GO CONSIDERATIONS:**

The provisions H.R. 6 would affect direct spending and therefore would be subject to pay-as-you-go procedures under Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1990. The pay-as-you-go procedures cover only the current year, the budget year, and the succeeding four years. The pay-as-you-go effects of the bill are shown in the table below.

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|  |                |      |      |      |      |      |      |       |       |       |       |
|--|----------------|------|------|------|------|------|------|-------|-------|-------|-------|
| Summary of Pay-As-You-Go Effects       |                |      |      |      |      |      |      |       |       |       |       |
| <hr/>                                  |                |      |      |      |      |      |      |       |       |       |       |
| By Fiscal Year, in Millions of Dollars |                |      |      |      |      |      |      |       |       |       |       |
|  | 1998           | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005  | 2006  | 2007  | 2008  |
| Change in outlays                      | -185           | 590  | 665  | 740  | 845  | 915  | 990  | 1,040 | 1,075 | 1,125 | 1,165 |
| Change in receipts                     | Not applicable |      |      |      |      |      |      |       |       |       |       |

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## **INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT**

H.R. 6 contains no intergovernmental or private-sector mandates that would exceed the thresholds established in UMRA. (The threshold for intergovernmental mandates is \$50 million in 1996, adjusted annually for inflation. The threshold is \$100 million in 1996, adjusted annually for inflation.) The bill would prohibit all creditors, including state, local, and tribal governments, from garnishing grants, loans, or work assistance awarded to students (under Title IV of this bill) to satisfy any debt owed by the student. CBO estimates that any loss of revenue to creditors would not be significant.

The bill's provisions would, on the whole, benefit public institutions of higher education. Although some new requirements would be imposed on these institutions, they would not be considered mandates under UMRA because they would be conditions of receiving federal assistance.

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